The Stop & Shop Companies Annual Report for the year ended January 28, 1978

The Stop & Shop Companies, Inc. and Subsidiaries
Comparative Highlights

(Dollar figures in thousands except those stated on a per share basis)	52 Weeks Ended January 28, 1978	52 Weeks Ended January 29, 1977
Sales	**$1,611,569**	$1,474,872
Earnings:		
Net Earnings	**$ 12,422**	$ 11,408
% of Net Earnings to Sales	**.77%**	.77%
Net Earnings Per Share	**$ 3.13**	$ 2.88
Dividends:		
Cash Dividends Paid	**$ 3,974**	$ 3,961
Per Share of Common Stock	**$ 1.00**	$ 1.00
Working Capital	**$ 84,610**	$ 65,054
Current Ratio	**1.84 to 1**	1.69 to 1
Stockholders' Equity	**$ 109,269**	$ 100,633
Book Value Per Share	**$ 27.44**	$ 25.37

Per Share of Common Stock

	Earnings		Dividends		Market Price	
	1977	1976	1977	1976	1977	1976
First 16 Weeks	**$ .30**	$ .34	**$ .25**	$ .25	**$16½-15¼**	$21 -17⅞
Second 12 Weeks	**.06**	.32	**.25**	.25	**15½-14½**	18⅜-15⅛
Third 12 Weeks	**.44**	.34	**.25**	.25	**14⅝-12⅞**	16 -14⅛
Fourth 12 Weeks	**2.33**	1.88	**.25**	.25	**14⅜-12½**	16¼-13¼
	$3.13	$2.88	**$1.00**	$1.00		

The Cover
The cover of this year's annual report portrays the corporate logo of The Stop & Shop Companies, Inc. Within the Corporation to date there have developed and grown four retail companies (Stop & Shop Supermarkets, Bradlees Department Stores, Medi Mart Drug Stores and Perkins Tobacco Shops) and the Stop & Shop Manufacturing Company. These five operating companies are symbolized within the logo by photographic examples of some of their key operations.

The Stop & Shop Companies, Inc.
The Stop & Shop Companies, Inc. is a diversified regional retailer with 321 stores in seven states from Maine to New Jersey. Founded in 1914 as a chain of food stores, in 1961 it entered the discount department store business represented by Bradlees and in 1967 further diversified into the super discount drug store business as Medi Mart. In 1969 the Corporation acquired the Charles B. Perkins Tobacco Shops, a specialty tobacco retailer which has tobacco shops in leading East Coast malls and maintains licensed departments in many Bradlees stores.

The Corporation operates extensive food processing facilities including a bakery, commissary, dairy and a modern central meat processing facility. These manufacturing operations, together with the company's photo finishing plant, form a separate division, the Stop & Shop Manufacturing Company.

The Stop & Shop Companies, Inc. employs 25,000 people and has approximately 6,000 stockholders. Its stock is listed on the New York and Boston Stock Exchanges.

Contents

Letter to Stockholders and Employees:

Senior Management: Irving W. Rabb, Avram J. Goldberg, Sidney R. Rabb

Our 1977 fiscal year must be viewed as both a productive and challenging one for The Stop & Shop Companies. At the end of the first three quarters, our cumulative earnings were behind the prior year. However, as a result of a record fourth quarter performance, our earnings for the year not only exceeded last year's, but were the second highest in our history.

The national business environment was more stable compared to the volatile economic conditions of the past few years. The new Federal Administration struggled with the task of establishing priorities and policies. And the nation seemed willing to give the new administration a grace period for setting direction, even in the face of conflicts between the Congress and the President over energy and tax reform. In the meantime, the range of government activities affecting the retail business expanded significantly.

Erratic consumer spending in a slow growth economy characterized the year. The number of women working continues to increase geometrically, and concurrently family life in our country continues to change. These economic and social factors in turn cause changes in buying patterns, and influence how people spend their disposable income. Meanwhile, consumer concerns continued and an awareness of nutrition and companion issues emerged as major forces, both in government and in the marketplace.

As in 1976, the diversification of our retail companies again added stability to our financial results. 1977 sales were $1,611,569,000, an increase of 9.3% over 1976 sales of $1,474,872,000. Net income of $12,422,000, or $3.13 per share in 1977 compares to net income in 1976 of $11,408,000, or $2.88 per share. For the year, sales of the Supermarket Company were $1,086,824,000 and sales of the General Merchandising Companies were $524,745,000 representing 67% and 33% of total sales respectively. In terms of operating profit contribution, however, General Merchandise accounted for 59% and the Supermarket Company 41%.

Net Sales	1977	1976
	(In Thousands)	
Stop & Shop Supermarkets	**$1,086,824**	$1,013,135
Bradlees Department Stores exclusive of licensees sales	**444,984**	392,441
Medi Mart Drug Stores	**68,470**	58,495
Charles B. Perkins Tobacco Shops and other	**11,291**	10,801
Total:	**$1,611,569**	$1,474,872

At year-end our financial condition was strong with working capital up $19.6 million to $84.6 million.

For our Supermarket Company, this was another year of intense price competition, and rising payroll, energy, and other costs. The year was marked by a variety of promotional efforts by competitors in our trading areas, such as frequent outbreaks of "double and triple manufacturers' coupon" offers. Our people met all challenges and protected our share of the business. At the same time, they generated a contribution to profit which was higher than the previous year's. However, the competitive pressures and resulting gross profits prevented our meeting our goals for 1977. We are very hopeful that the forward progress achieved in 1977 will continue in the current year.

During the year we opened six new supermarkets (two of which were relocations on proven sites) and remodelled eight. In 1978 we expect to open three new supermarkets in Connecticut and one in New Jersey, and to continue our remodel program.

Bradlees' owned sales attained a new high of $445 million, with total store sales per square foot of sales area reaching $90, up from $81 per square foot in 1976. We have established a long-run merchandising strategy for Bradlees, of highlighting the customer appeal of our "hardlines" departments, while maintaining our historic strength in apparel. Our objective is to generate significantly higher sales per square foot of retail space – and 1977's results evidence real progress toward that goal.

A healthy inventory is the hallmark of a healthy retail company. It is most significant, therefore, that Bradlees achieved its outstanding results in sales and still ended the year with inventories only 2% higher than the previous year.

Although we opened no new Bradlees stores in 1977, we continued our program of departmental upgrading of existing stores and completed four major remodels. In 1978, we will continue our remodel program, and expect to open at least two new stores. At the same time, we are intensifying our search for good Bradlees locations.

1977 continued Medi Mart's pattern of growth with the addition of five new stores located throughout our current marketing areas, bringing the total to 40 units. Sales for the year, at $68 million, represented an increase of 17.1% over the prior year. Our pharmacists filled a record of over 2 million prescriptions during 1977 and, since this department is the heart of Medi Mart, we are extremely gratified by such evidence of consumer trust and acceptance.

It is well recognized that New England in particular, and the Northeast generally, represent excellent opportunities for super drug stores such as Medi Mart. Thus, the major competing companies in our trading areas are also concentrating on growth – resulting in intense pressures on gross margins. We are pleased Medi Mart was able to maintain the level of 1976's contribution to profit while moving forward in this dynamic phase of its development. We plan five new Medi Mart stores in 1978.

Perkins Tobacco stores enjoyed a successful year in both sales and profit contribution. The Perkins people concentrated on efforts designed to increase the variety of products available to our customers, and thereby to improve profitability. Strength in private label product sales, a greatly expanded line of high grade imported cigars and an upgraded line of cigarette lighters all contributed to the profit picture. In 1977, we opened two new Perkins mall stores, one of which was a relocation.

In this, their first year of combined operation as the Stop & Shop Manufacturing Company, our Marlboro Meat Processing Facility, Bakery, Commissary, Dairy and Photo Finishing Laboratory geared up for an expansion of the business both within the Corporation and in sales to outside customers. By the end of the year, substantial progress had been made in outside sales, especially in the sale of baked goods. Our Bakery is presently servicing accounts in the wholesale baking and food service industries and has a firm commitment to supply the bakery needs of a small-sized chain of supermarkets. At the Marlboro facility, outside sales increased substantially over the prior year.

Since it began operation in 1973, our color photo finishing plant has progressed every year as our stores have generated significant photo finishing volume. In 1977, we decided to experiment with our own parking lot photo kiosks. Under the name "Photo Stop"SM, we have installed three kiosks in Greater Boston locations.

As we have always emphasized, "people are our most important asset" – and our company continues to be nurtured by a combination of attracting new people to us – and promotion from within.

In November, we welcomed Dr. Clifton B. Cox, Vice Chairman of the Board of The Greyhound Corporation and Chairman of Armour and Company, as the newest member of our Board of Directors. Dr. Cox brings to our Board a lifetime of experience in general management, education, agribusiness and managerial development.

Rufus E. Lester, Jr., former Commander of the United States Army Natick Research & Development Command, joined us in the new position of Vice President for Technical Affairs, in anticipation of the retirement this summer of Arthur Norris, Vice President for Technological Development and Quality Control. Arthur Norris joined Stop & Shop in 1959 and, over the last two decades, has spearheaded our entry into food processing and modern quality control.

During the year a number of our associates were promoted to positions of Vice President in the areas of their respective responsibilities:

James Hyman to Vice President and General Merchandise Manager, Hardlines for the Bradlees Company; Jack Kushinsky to Vice President, Financial Management and Administration, for the Supermarket Company; and Joseph D. McGlinchey to the new position of Vice President and Corporate Controller.

In March, after the end of the fiscal year, Harry Kohn, Jr., formerly Senior Vice President and General Manager for Abraham & Straus Budget Stores, joined Bradlees as Vice President and General Merchandise Manager, Apparel.

Computer room, new Information Systems facility, State Street South.

At the Corporate level, we took several steps, not only to respond to prevailing business conditions, but more importantly to channel our resources more effectively toward long term healthy growth. We have made significant progress in the areas of People Development, Long Range Planning and Operational Efficiency.

Janet Elliott Freeman, formerly Divisional Vice President for Store Personnel of Associated Merchandising Corporation of New York, joined us in the new position of Director of Human Resources. We have created a People Development Committee, composed of senior executives from both the operating companies and staff organizations. They have met throughout the year and have made considerable progress in developing systems to identify and measure high potential people throughout The Stop & Shop Companies. We are giving this effort the highest possible priority.

The Futures Committee worked throughout the year to select and pursue opportunities for both internal and external growth. We hope that these efforts will bear their first fruits in the current fiscal year.

In the Third Quarter of 1977, we undertook a significant cost reduction effort in all overhead areas (both corporately and within the operating companies). Our people concentrated on two fronts simultaneously: on one hand, working together, they eliminated a number of less important functions throughout the Companies; and on the other, they agreed to defer, and, in some cases, cancel, proposed additions to overhead. We believe that the results were major cost savings without hindering the health and growth of the company.

In April, our Information Systems Division moved as planned from its existing, over-crowded and outmoded facilities in South Boston to the modern and more secure State Street South office building, joining our Administrative group there. We are already beginning to realize many of the efficiencies projected as a result of that move.

Our new computer system, CORDS (Corporate Ordering, Replenishment and Distribution System) presents great potential for improved efficiency in our Distribution process. Its first phase will soon be functioning "live" in our Bakery operation. Eventually, it will enable all stores of all of our operating companies to order any item from any of our various distribution centers.

We have continued our intensive efforts in Energy Conservation. Comparing 1977 electrical consumption to that of 1973, we have realized a kilowatt hour reduction of 20% in the Bradlees stores – and a reduction of 10% in supermarkets with their heavy refrigeration load. This usage reduction has softened, but not eliminated the impact of constantly rising rates.

During the year, we tested an electronic device which regulates heat and air conditioning levels by "reading" the number of people entering and leaving our Bradlees store in Burlington, Massachusetts. The system then adjusts fresh air intake accordingly. The results of this test are promising; and the U.S. Department of Energy is supporting a further test in our Bradlees store in Framingham, Massachusetts.

Near the end of the year, our Massachusetts Bradlees and Supermarkets installed electronic check verification systems, designed to add to customer convenience, and, at the same time, to improve our operating efficiency. Money/One®, a subsidiary of The First National Bank of Boston, is providing this service to 52 Stop & Shop supermarkets and all 29 Massachusetts Bradlees. Value Exchange Corporation (VEC), operated by the State Street Bank & Trust Company, Provident Institution for Savings and other banks, is available in 24 Massachusetts supermarkets. Both systems

are capable of being upgraded for use in an electronic banking system, when and if such banking is permitted in the Commonwealth of Massachusetts.

We in The Stop & Shop Companies have tried to emphasize over the years the importance of commitment to and concern for the communities of which we are members. In May of 1977, Mr. Sidney R. Rabb, Chairman of the Board, was one of seven men and women honored as "Grand Bostonians" by the Mayor of Boston. Also in May, Brandeis University conferred upon Mr. Rabb the honorary degree of Doctor of Humane Letters.

Our Vice Chairman, Mr. Irving W. Rabb, became the first recipient of the Food Marketing Institute's Sidney R. Rabb Award for outstanding contribution to the food industry.

In October, Simmons College presented its PRIDE citation to Carol R. Goldberg, President of our Manufacturing Company, in recognition of her services to the community and the college.

In June, President Carter convened a meeting at the White House to create a National Coalition for the creation of an Agency for Consumer Advocacy. Avram J. Goldberg, President of The Stop & Shop Companies, attended the meeting and was named a national Vice Chairman of the Coalition.

As the fiscal year ended, Mr. Goldberg was invited to present testimony before the House Subcommittee on Domestic Marketing, Consumer Relations and Nutrition concerning our progress in helping to provide our customers with nutritional information.

Activities in the public sector are not theoretical issues for The Stop & Shop Companies. Debates and decisions on public policy frequently have major impact on our shareholders, our employees and our customers. That is why we believe we must become increasingly active and effective in public affairs. To do so, we must think through our positions carefully, articulate them clearly and communicate them to the many "publics" with whom we interact.

Through our Consumer Affairs activities, we were among the first American companies to establish widespread and meaningful direct communication with our customers and thus have a solid foundation on which to build.

We are exploring new methods for improving our communications with the 25,000 members of the Stop & Shop family; and this past year we have launched an organized effort to improve our ability to explain our positions on issues to those in the government arena.

By creation of a company Public Policy Task Force, we have formalized our approach to early identification of issues impacting our business and, through debate and discussion, the formulation of a company position with respect to each. The Task Force, chaired by the President of the Corporation, consists of the Vice Chairman, the heads of our Supermarket, General Merchandise and Manufacturing Companies, and staff Vice Presidents representing a variety of disciplines. During 1977, we took public positions on the following issues:

Office of Consumer Representation – We publicly supported the bill which would have established a Federal Agency for Consumer Advocacy and its companion legislation. We are disappointed at the defeat of this bill in the House of Representatives and hope that the President will establish a meaningful process for consumer representation in the federal decision-making process.

Mechanically Deboned Meat (MDM) – Mechanical deboning of meat in our Marlboro plant was a safe, effective and profitable method of separating edible tissue from bone. Our operation and those of all other companies have been suspended for over a year, while a government agency has been reviewing the safety of that product. A select panel of scientific experts, appointed by the Secretary of Agriculture, has now declared that mechanically deboned meat is a safe, nutritious, and worthwhile product. We believe that those findings are valid and oppose the efforts of consumer activists to overturn them and to block the sale and/or production of MDM.

Bottle Bills – Presently pending in Massachusetts and Connecticut, bottle legislation would ban non-returnable cans and bottles, and would force all consumers to pay a deposit for all such products. Consistent with our corporate efforts in energy and resource conservation, we favor comprehensive Resource Recovery legislation and oppose "Bottle Bills."

The financial structure of your company continues to be solid and sound. During the year we received the final $20 million of the proceeds of the additional $30 million Prudential loan, thereby completing the funding of our capital appropriation program for the next few years.

Also during 1977, we completed negotiations with unions representing employes in our stores, distribution centers and manufacturing facilities. The result was a total of 11 new labor contracts – most of them running into 1980.

We would like to express our deep appreciation to William Applebaum, a Director since 1949, who will not stand for re-election to our Board in 1978. Bill Applebaum joined Stop & Shop as an employee in 1938 and founded our Research Department. He retired in 1966 to pursue a distinguished career as an international consultant and lecturer on Food Distribution and Comparative Marketing at the Harvard Business School and other universities. We have benefited over the years from his sound judgment and broad knowledge of food distribution.

We firmly believe that the welfare of our stockholders and the future success of The Stop & Shop Companies depends primarily upon the high performance levels of our people, and the continued good citizenship activities of the Company and its members. While it is true that improved equipment and marketing tools are necessary indicators of progress in our industry, it is the overriding human factors that will ultimately guarantee our real health and prosperity. And so, it is with pride in our people and their accomplishments that we once again thank you, our Stockholders, for your continued support.

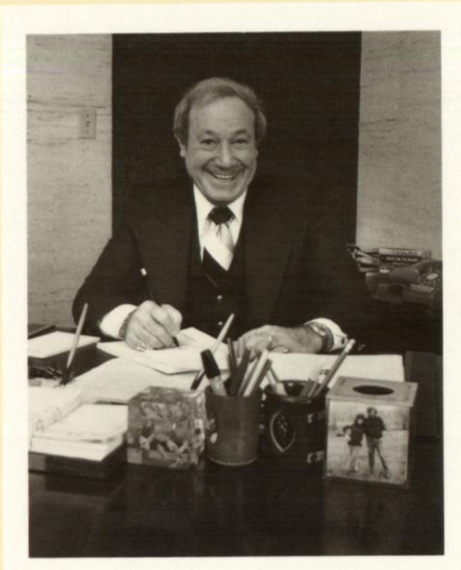
Sidney R. Rabb
Chairman of the Board

Avram J. Goldberg
President

Reports from Our Companies

Stop & Shop Supermarkets

The Stop & Shop Supermarket Company, led by Sidney L. Goldstein, President, met the competitive challenges of 1977 head-on and entered 1978 with its market position intact and healthy.



Sidney L. Goldstein

A highly successful dinnerware promotion, resulting in the sale of over five million pieces, coupled with an excellent canned goods sale, sparked the Company to record sales in October. This performance was later exceeded by our pre-Christmas program which set new sales records both for a single week and for a four week period.

Faced with increases in operating costs which outpaced rises in food prices, we placed emphasis on achieving productivity gains, both in the stores and in the offices. As a part of this effort, the Company undertook an extensive review of its overhead costs and effected a significant expense reduction. We believe that the resulting organization is one well prepared to meet the challenges ahead.

We also strengthened our organization in a number of areas.

Jack Kushinsky, formerly Director of Finance and Administration, was promoted to the new position of Vice President of Financial Management and Administration.

Martin Donohoe, with 31 years' experience in Stop & Shop's meat marketing, was promoted to Meat Sales Marketing Manager.

Edward Minnich, who has an extensive advertising background in the industry, joined us as Director of Advertising and Sales Promotion.

During the year, new stores were opened in Bloomfield and Wallington, New Jersey; Fairfield, Connecticut and Quincy, Greenfield and Rockland, Massachusetts. The latter two stores were replacements for older stores. We closed unprofitable supermarkets in Paramus, New Jersey and Cranston, Rhode Island. At year-end, four additional new stores were under construction: three in Connecticut and one in New Jersey.

We also completed major remodels of stores in Salem, Somerville, Lexington, Gloucester and Hyannis, Massachusetts; and Bristol, Norwich and Norwalk, Connecticut; and renovations of eleven other supermarkets.

Always seeking new ways to serve our customers, we converted supermarkets in Manchester and Salem, New Hampshire and Woburn, Massachusetts to "warehouse" food stores. At year-end we were operating six under the name "Economy Food Outlet." The number of such stores in our operating areas increased in 1977. We continue to watch closely the development of the "warehouse" food store concept, not yet convinced of the profitability of these operations except under certain local conditions.

The people of the Supermarket Company enter 1978 committed to sustaining the improved performance achieved in the third and fourth quarters of 1977.

General Merchandise

The General Merchandise Companies, headed by Group Vice President Robert J. Levin, again turned in a strong performance in 1977.

Robert J. Levin

This group of retail companies, consisting of Bradlees, Medi Mart and Perkins, registered a combined 13.6% sales increase over 1976. The operating profit contribution of the General Merchandise Companies constituted 59% of the total on 33% of all corporate sales.

The reports of each of the three General Merchandise Companies follow.

Bradlees Department Stores

For the third straight year, Bradlees posted increases in both sales and operating profit contribution. Total sales per square foot increased significantly, showing continuing gains in productivity.

Harold Frank

These results were achieved despite the entry of many new competitive stores into our operating areas, increased promotional activity throughout the retail industry and consumer spending that was dominated by a desire for the best values available. Price conscious customers took advantage of our increased promotional efforts and this customer psychology had an adverse impact on gross margins.

Headed by Harold Frank, President, Bradlees enjoyed a record Christmas season and strong sales increases carried through into January despite the severe weather conditions in the Northeast. End of year inventories were in line, enabling us to begin 1978 with fresh merchandise and strong open-to-buy conditions.

During the year we developed a prototype for all Bradlees stores, encompassing fashion presentation,

trend merchandising, easy-to-shop department adjacencies and housekeeping and merchandising standards. Consumer response has been extremely favorable. A new sales record for all store openings was established with the reopening of our prototype remodeled Norwalk, Connecticut store in August 1977.

Including Norwalk, we remodelled four stores in 1977 (Dorchester, Massachusetts and Wayne and Clifton, New Jersey), all of which reflect the new prototype, as will the two new stores we plan to open in 1978. Our ongoing review of store profitability led to the closing of our unprofitable Eatontown, New Jersey store.

During the second half of the year we redesigned our weekly circulars. Our advertising now more closely reflects our in-store presentation through its graphic impact, merchandise selection and printing processes.

We are continually seeking ways to control costs, increase efficiency and improve our information systems. In 1977, we installed electronic cash registers in 15 more Bradlees, bringing the total to 31 stores.

In the latter half of the year, James Hyman was appointed Vice President and General Merchandise Manager, Hardlines; Richard J. Casey was appointed Divisional Merchandise Manager, Toys; George M. Granoff was named Divisional Merchandise Manager, Housewares and Decorative Home, and Barry N. Stoloff became Divisional Merchandise Manager, Leisure. Consistent with our commitment to People Development, these appointments all involved promotion from within the ranks of Bradlees.

We look toward 1978 as a year of opportunity for continued growth in sales, profits and productivity.

Medi Mart Drug Stores

As Medi Mart's ninth year of operation came to a close, we were able to look back to 1977's sales and profit contribution with a sense of pride and accomplishment.

Under the leadership of Seymour L. Silverstein, Vice President and General Manager, the chain expanded to 40 stores, adding three new locations in Massachusetts: Quincy, Everett and Dedham, plus one new store in Fairfield, Connecticut and another in Bloomfield, New Jersey. Our Everett store broke all previous records for opening week sales.

Seymour L. Silverstein

As we build new stores throughout our operating area we must also build consumer awareness of our products and services. To meet this end, we appointed Janet Tyrrell as Director of Advertising for Medi Mart.

We also expanded our Merchandising Department and realigned our buying functions. Michael Russell, former store merchandising manager of our Willimantic store, and Robert Gallagher, former operations assistant in Massachusetts, were appointed to the Merchandising staff.

As a result of the growth in the number of stores in the Greater Boston area, we reorganized market responsibility. Alan Maciulewicz, former store merchandising manager of our Hartford store, was promoted to the newly created position of market manager for our Northern Massachusetts market.

The watchword for 1977 was "SOCCO" (Standards, On hand inventory, Cum, Controls, Objectives), a comprehensive program involving all areas of our business and focusing upon the necessity of high standards, sound management of on-hand inventory, maintenance of markups, tightening of controls and, finally, the achievement of our business objectives. The results of "SOCCO" were instrumental in strengthening Medi Mart and equipping us to handle what lies ahead.

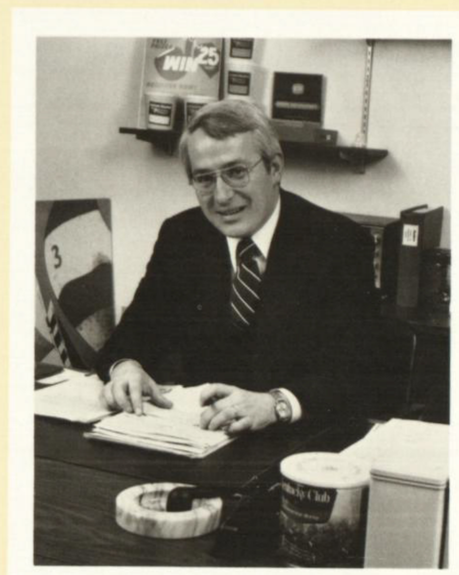
Throughout the year we developed new and innovative programs to improve our service and enhance our image within our operating area. We installed self-testing blood pressure machines for our customers in all stores. We reinforced our sanitation and quality control programs with a new pharmacy code of inspection and, in anticipation of future growth, we are testing an electronic register system.

The conclusion of the year was one of extremes. We experienced record breaking Christmas season sales and then, shortly thereafter, the devastating effects of the severe weather conditions in the Northeast. We met the test with determination and look forward with confidence to making a significant contribution to The Stop & Shop Companies, Inc. in the years to come.

Perkins Tobacco Shops

1977 represented a year of successful growth and profit for Perkins Tobacco Shops, as we continued to build our reputation as specialists in high grade tobacco and allied products.

During the fall we had a very successful opening of our new store in the Mall of New Hampshire, located in Manchester, and a favorable relocation of our North Shore Shopping Center (Peabody, Mass.) store. Our Tobacco Department within Bradlees at Norwalk, Connecticut was also remodelled and updated in both fixtures and merchandising concepts.



Timothy A. Hays

Led by Timothy A. Hays, Vice President and General Manager, we continue to expand our private label product line. In 1977 we introduced a complete line of C.B. Perkins Honduran Handmade cigars, which became our fastest selling imported cigar. Our new Perkins Mixture pipe

tobacco, designed to compete directly against leading domestic brands, has shown encouraging sales growth. A new C.B. Perkins Normandy pipe featuring a stylish, colored lucite stem and popular matte finish was also introduced during the year.

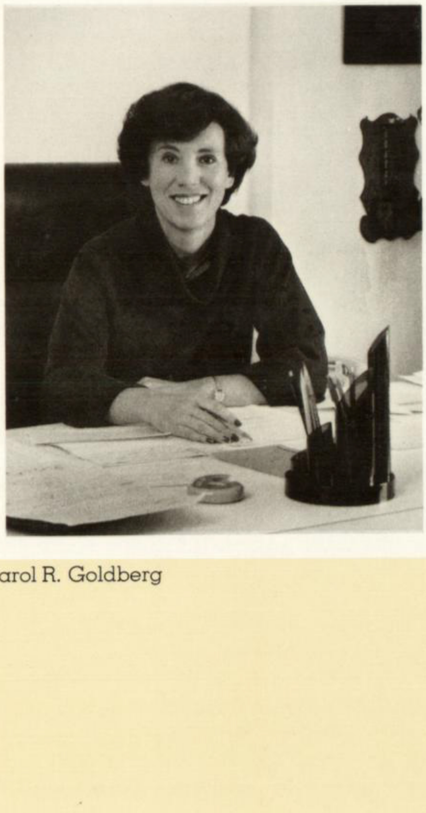
In the fall, Perkins launched its first entry into the field of Mail Order merchandising, with two promotional mailers directed to lists of established smokers. Through this program we will expand our activity beyond our current operating area.

Perkins is continuing to upgrade its specialist role in the high grade tobacconist area in order to capitalize on the shift from cigarettes to other smoking forms.

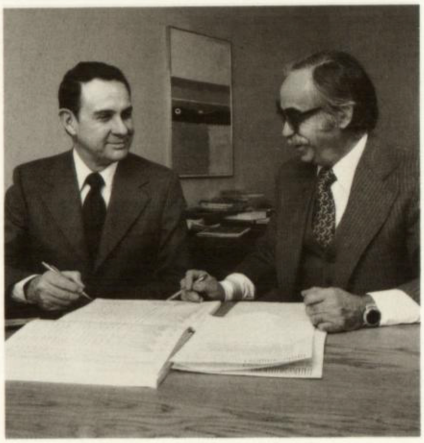
To help us fulfill this role, we are taking several steps, both in improved merchandising presentation and advertising and, more importantly, increased training and development of our store personnel. With over 116 years of experience in thriving on this sort of challenge, we look forward to the coming year.

Stop & Shop Manufacturing Company

An efficient team of professionals working in a modern streamlined organization is the best guarantee for success for any new venture. 1977, our first year operating as the Stop & Shop Manufacturing Company, was marked by refinements in structure, personnel and programs. Under the leadership of Carol R. Goldberg, President, we are now well-positioned to continue our efforts in expanding sales within the Corporation and to outside customers.



Carol R. Goldberg



Rufus E. Lester, Jr., (left); Arthur Norris

To strengthen our efforts in the area of sales to the Supermarket Company, Barry A. Berman joined us in August 1977, in the newly created position of Marketing Manager.

A major reorganization of the Meat Buying and Merchandising Group occurred during January, 1978. Spyros A. Gavris, Supermarket Vice President of Meat Operations, was transferred to the Manufacturing Company as Vice President, Marketing and Sales, Marlboro.

Rufus E. Lester, Jr. joined our organization in November as Vice President for Technical Affairs, assuming some of the responsibilities of Arthur Norris who will retire in June, 1978. Mr. Lester will oversee the design, organization and implementation of our corporate quality control programs in all our companies, our laboratories, our manufacturing plants, our distribution facilities and our stores.

Our Bakery, while increasing its outside sales, continually refined its operations. During the year we eliminated the entire snack item line which, despite its high volume, was unprofitable. Keeping up with industry and consumer trends during the year, we introduced a number of new products, including an "All Natural High Fiber Bread".

At the Dairy Plant, we achieved record production volume during this past year. Orange juice sales increased by 20%, despite large increases in the cost of concentrate and in retail prices.

The introduction of a new fresh pizza program for our stores, including the designing of a new Pizzaria section in the stores, was a highlight of the Commissary's year. The results were highly successful, with a 150% increase in volume compared to last year. In addition, our frozen pizza sales increased by 20%.

The Color Photo Laboratory continued on its program of steady growth in both sales volume and profit contribution. We experienced some additional photo finishing volume as a result of the three new experimental Photo Stop℠ kiosks.

At the Marlboro Meat Processing Facility, we have continued to emphasize outside sales, achieving a 28% increase over 1977. We developed and presented an exciting new ground beef program this year featuring reduced fat levels. Our 14% and 20% fat content ground beef outsold the 26% product, indicating the customer is more aware and interested in less fat in the diet. Also during the year we began production and sale of fresh pork sausage with gratifying results.

Our achievements of this year will enable us to meet the opportunities and challenges ahead.

Public Affairs: Maintaining an Open Dialogue

A retail company such as ours has a number of distinct "publics" with whom we must communicate. With the ever increasing demands on the private sector by advocacy groups and government, maintaining an open dialogue and responsive relationship with the organized public is a business imperative. Mass communication, moreover, has enlarged the community to which we must respond.

This year we established a Corporate Public Policy Task Force. Chaired by the President of the Corporation, the Task Force includes the Vice-Chairman, the heads of our Operating Companies and several staff Vice Presidents. The mission of the Task Force is to formalize our approach toward early identification of issues impacting our business and, through consideration of our corporate goals and responsibilities, the formulation of a company position, policy or action with respect to each.

Our society is changing with rapid speed. Our customers seek a greater say in the conduct of the marketplace, and government is playing a larger role than ever in determining the nature of products, commerce and communication.

We believe it is essential for us to develop the mechanisms to hear, anticipate, and respond to the growing demands of our diverse constituencies. Through our department of Civic, Government and Community Affairs, we maintain an open line of communication with our social, economic and political institutions, working in concert where possible and lending our voice in decision-making when necessary.

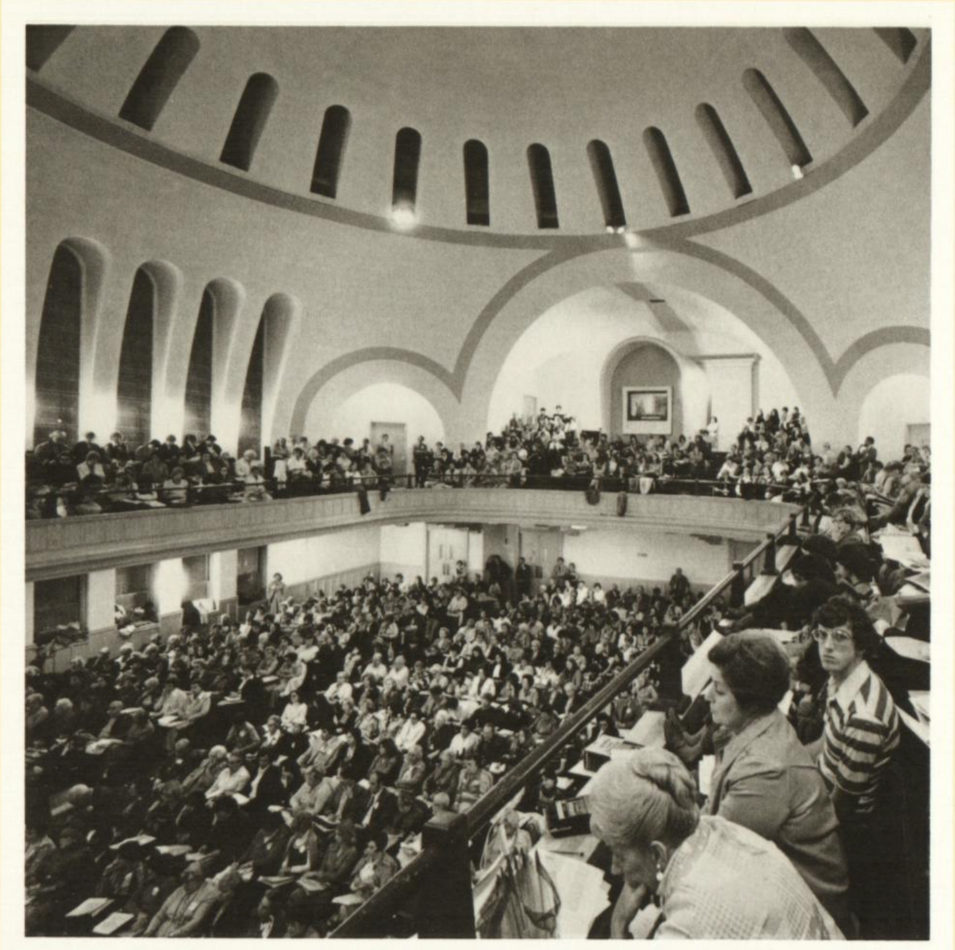
Our Consumer Affairs activities keep us abreast of our customer's attitudes, needs and demands as they respond to social, psychological and economic change. New products, packaging, information and services have a greater chance of success if they are developed against a clear understanding of consumer wants and experience.

Dr. Jean Mayer, President, Tufts University, moderating nutrition dialogue.

Our Media Relations capability provides us with the means of communicating our actions and philosophy to the public at large – our unorganized constituency.

The highlight of 1977 was a joyous celebration of the Tenth Anniversary of our Consumer Board program. In keeping with our philosophy, *Consumer Dialogue '77: Nutrition and the Health of America* brought together Government officials, consumers and the Stop & Shop leadership to share their knowledge, attitudes and concerns about government, nutrition and health. Attended by an overflow crowd, the event received widespread attention throughout the Northeast.

We were honored by the participation of Esther Peterson, Special Assistant to President Carter for Consumer Affairs; Congresswoman Margaret M. Heckler, member of the House of Representatives' Subcommittee on Domestic Marketing, Consumer Relations and Nutrition; Dr. Jean Mayer, President of Tufts University and noted nutritionist; Sydney J. Butler, Deputy Assistant Secretary of Agriculture for Food and Consumer Service, U.S. Department of Agriculture; and Alan Stone, Staff Director of the Senate Select Committee on Nutrition and Human Needs.



Overflow crowd listens attentively.

Special Assistant to the President Esther Peterson chats with consumer participant.

Distribution: A Basis for Growth

If, as we believe, merchandise is the lifeblood of retailing, then surely distribution is the heart. Our ability to sustain a smooth and even flow of needed merchandise to our various retail stores makes possible the vitality, growth, and diversification of The Stop and Shop Companies. And, as in all other areas of our business, it is our dedicated and experienced people who make the distribution process work.

Our centralized distribution capability provides a basis for growth and an opportunity for synergistic savings. Thus, when the Corporation acquired Bradlees in 1961, it was this distribution capability that helped evolve Bradlees into what it is today. Bradlees now owns all departments, except shoes, with more than 75% of all deliveries made from a central distribution center. The creation of Medi Mart in 1967 and acquisition of Perkins in 1969, were similarly aided, as would be any future ventures.

Our distribution network also affords a variety of opportunities for added savings and efficiency. In our Combined Buying program, for example, the buyer of one retail company usually purchases products common to all. Merchandise is then distributed to each of the retail outlets. Similarly, a separate Corporate buying staff acts on behalf of all operating companies in buying and distributing health and beauty aids through our Corporate Health and Beauty Aids program, and so on.

More than is generally understood, retail distribution is multi-faceted and complex. Our people, our facilities, and our fleet of trucks make possible the physical movement of millions of items of foods, general merchandise, tobacco and pharmaceutical products received from all corners of the United States and the world.

Our Distribution Division in a year will:

Employ	1,200 people
Ship	120 million pieces
Occupy	1.6 million square feet
Make	170,225 store deliveries
Operate	145 tractors
	375 trailers
	395 material handling trucks
Travel	13.5 million miles

The distribution cycle starts with our buying and merchandising people who identify, select and purchase product from suppliers.

Our data processing operation represents the nervous system of the distribution network. It receives instructions on what products are needed through store ordering procedures and/or centralized merchandising decisions. The computer systems

translate product requests into specific directions as to what to receive, what to ship, to which stores and at what time.

The actual physical movement of product requires a complex coordination of people, equipment and information. Our Traffic and Inventory Management people set up regular channels of shipment, keeping the inbound flow of merchandise smooth from point of manufacture or supply to receipt in our distribution facilities. Our Traffic Specialists determine the most efficient travel and shipping routes for getting product to us. They oversee the movement of freight while enroute and expedite its arrival where necessary to guarantee that product is available at the right time and at the lowest cost. Our Inventory Management professionals monitor actual service levels and function as the intermediaries among the buying, merchandising and distribution functions.

Once products arrive at one of our nine distribution centers, our warehouse force receives and stores them under highly sanitary conditions. In response to computerized store orders, the goods are then selected and loaded onto our trucks. We use advanced handling techniques to protect our merchandise from damage, dirt and contamination and to obtain maximum efficiency.

Our commitment to modern methods in warehouse procedures, sanitation and quality control is reflected in the continuous up-dating of our distribution centers (eight of the nine are less than ten years old) and the efforts of our competent staff of professional sanitarians and inspectors.

Our warehousing and transportation people then work closely with store operations specialists to effect an orderly and cost-efficient flow of goods to our retail outlets when needed. Our trucks are on the road virtually 24 hours a day, seven days a week.

This complex network of systems, equipment and people represents a consistent effort to maintain the delicate balance among efficient distribution, the quality requirements for products at point of sale, the need for an in-stock position at our stores, and a controlled inventory. Maximizing efficiency while achieving high productivity in a caring and safe work environment is inherent to the conduct of our business.

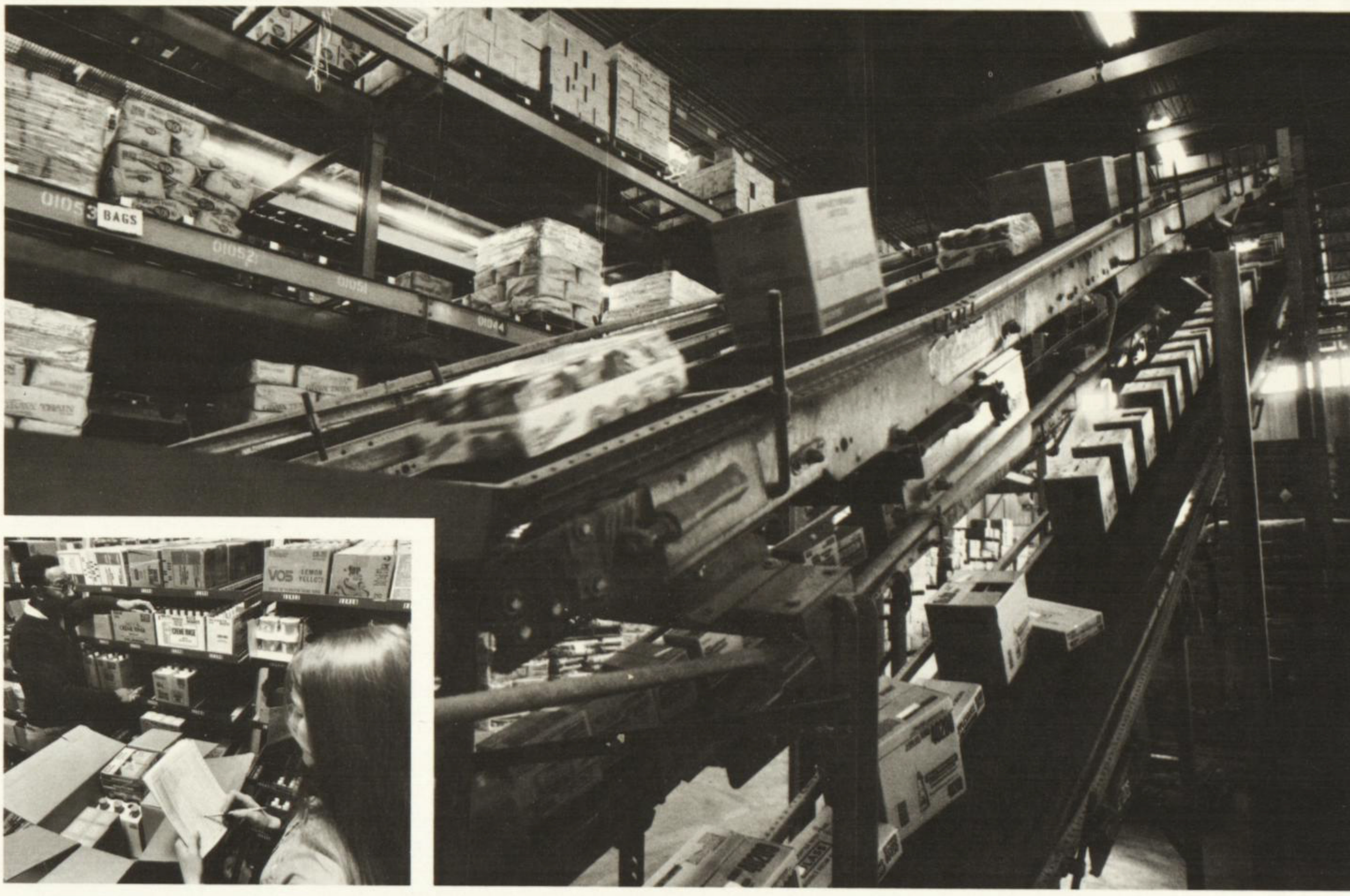
We continue to seek new ways of providing the maximum in service and quality to our customers at the lowest possible distribution cost. The pages that follow portray our distribution system and some of the people who give it life.

Inset: Private label product testing, Quality Control Laboratory, Readville, Mass.
Top: Bradlees apparel receiving, Distribution Center, Braintree, Mass.
Bottom: Grocery stock replenishment, Grocery Distribution Center, North Haven, Conn.

Inset: Store order entry, Information Systems Division (ISD), State Street South.
Top: Order processing, ISD, State Street South.
Bottom: Product selection, Readville Grocery Distribution Center.

Flower cutting and arrangement, Readville Perishable Distribution Center.

Inset: Corporate Health and Beauty Aids selection, Braintree Distribution Center.
Top: Conveyer assembly of store order, North Haven Grocery Distribution Center.
Bottom: Loading and shipping platform, North Haven Grocery Distribution Center.



The Stop & Shop Companies, Inc. and Subsidiaries

Five-Year Summary of Sales and Operating Profit Contribution by Major Segments

Fiscal Year Ended ($ In Thousands)	1/28/78 $	1/28/78 %	1/29/77 $	1/29/77 %	1/31/76 $	1/31/76 %	2/1/75 (a) $	2/1/75 (a) %	2/2/74 $	2/2/74 %
Sales										
Supermarket Company	**1,086,824**	**67.4**	1,013,135	68.7	978,566	72.0	894,099	73.1	788,764	72.8
General Merchandise Companies	**524,745**	**32.6**	461,737	31.3	381,210	28.0	329,692	26.9	294,193	27.2
Total sales	**1,611,569**	**100.0**	1,474,872	100.0	1,359,776	100.0	1,223,791	100.0	1,082,957	100.0
Operating Profit Contribution										
Supermarket Company	**12,997**	**40.6**	10,582	37.7	19,485	56.0	20,937	83.9	13,635	61.1
General Merchandise Companies	**19,020**	**59.4**	17,507	62.3	15,323	44.0	4,020	16.1	8,694	38.9
Total operating profit contribution	**32,017**	**100.0**	28,089	100.0	34,808	100.0	24,957	100.0	22,329	100.0
Unallocated Expenses – Net										
Interest expense – other than mortgages	**4,890**		3,547		2,307		2,620		3,040	
State taxes	**1,967**		1,636		2,607		1,383		1,339	
Other	**4,792**		4,620		4,373		3,637		2,713	
Total unallocated	**11,649**		9,803		9,287		7,640		7,092	
Net earnings before federal income taxes	**20,368**		18,286		25,521		17,317		15,237	
Federal income taxes	**7,946**		6,878		11,008		7,211		6,377	
Net earnings	**12,422**		11,408		14,513		10,106		8,860	

(a) Exclusive of extraordinary income of $1,886

	1/28/78	1/29/77	1/31/76	2/1/75	2/2/74
Identifiable Assets:					
Supermarket Company	**177,541**	176,068	170,382	158,766	156,374
General Merchandise Companies	**123,834**	116,963	104,627	86,971	82,837
Other unallocated	**43,180**	21,091	23,592	16,253	20,876
Total	**344,555**	314,122	298,601	261,990	260,087
Fixed Asset Additions:					
Supermarket Company	**12,515**	15,570	15,909	11,138	9,975
General Merchandise Companies	**10,448**	10,163	8,172	5,548	6,194
Depreciation & Amortization:					
Supermarket Company	**12,166**	11,235	10,503	10,158	9,834
General Merchandise Companies	**6,171**	5,620	5,066	4,846	4,180

Summary of Quarterly Results (unaudited)

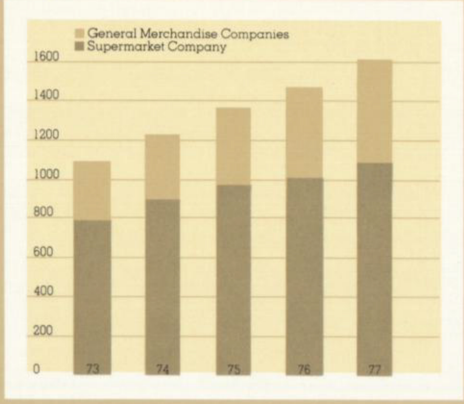
	Net Sales 1977	Net Sales 1976	Costs & Expenses 1977	Costs & Expenses 1976	Net Earnings 1977	Net Earnings 1976	Per Share 1977	Per Share 1976
First 16 Weeks	**$ 451,166**	$ 424,625	**$ 449,144**	$ 422,327	**$ 1,193**	$ 1,332	**$ .30**	$ .34
Second 12 Weeks	**363,274**	325,497	**362,901**	323,321	**244**	1,285	**.06**	.32
Third 12 Weeks	**375,015**	344,532	**372,120**	342,245	**1,737**	1,334	**.44**	.34
Fourth 12 Weeks	**422,114**	380,218	**407,036**	368,693	**9,248**	7,457	**2.33**	1.88
	$1,611,569	$1,474,872	**$1,591,201**	$1,456,586	**$12,422**	$11,408	**$3.13**	$2.88

Management's Analysis and Discussion of Operating Results

1977 Compared to 1976

Total sales in 1977 increased by $136,697,000 or 9.3% over 1976. Supermarket Company sales increased by $73,689,000 or 7.3% and sales of our General Merchandise Companies increased by $63,008,000 or 13.6%. General Merchandise sales reflect 11% higher sales per square foot in 1977 compared to 1976. Supermarket Company sales rose as a result of increased marketing activity as well as sales generated in new stores and stores remodeled during the year. Supermarket Company sales in 1977 decreased to 67.4% of the total Company sales from 68.7% in 1976, whereas General Merchandise Companies sales increased to 32.6% in 1977 from 31.3% in 1976.

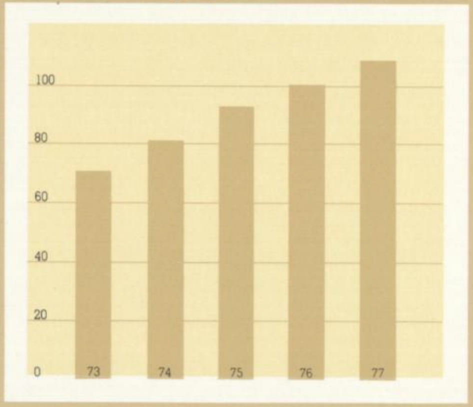
Net Sales (In Millions)



Costs and expenses for 1977 increased by $134,615,000 or 9.2% over 1976, a percentage increase slightly less than that of total sales. Operating expenses, particularly payroll and energy costs, continued to rise. Net interest expense increased by $1,189,000 or 14.7% over 1976. Interest on mortgages decreased by $154,000 due to amortization of existing debt. Other interest, net of income earned on the funds available for short term investment, increased by $1,343,000 or 37.9% over 1976 due to the takedown of $20,000,000 in additional funds in 1977 under our existing loan agreement with the Prudential Insurance Company (Note 2).

Federal income taxes in 1977 were 39.0% of earnings before federal taxes compared to 37.6% in 1976. The increase in rate is primarily due to the higher investment tax credit claimed in 1976.

Stockholders' Equity (In Millions)



Net earnings in 1977 were $12,422,000, an increase of $1,014,000 or 8.9% over 1976. The 1977 operating profit contributions from both our Supermarket and General Merchandise Companies increased over 1976. The operating profit contribution from the Supermarket Company was 40.6% of the total compared with 37.7% in 1976 and the operating profit contribution of the General Merchandise Companies was 59.4% of the total compared to the 62.3% reflected in the prior year. Net earnings as a percentage of sales were .77% in both 1977 and 1976.

1976 Compared to 1975

Total sales in 1976 increased by $115,096,000 or 8.5% over 1975. Supermarket Company sales increased by $34,569,000 or 3.5% and General Merchandise Companies sales increased by $80,527,000 or 21.1%. General Merchandise Companies sales continued on an upward trend during 1976 and, in particular, during the fourth quarter holiday season. Supermarket Company sales, on the other hand, reflected the general softness in the region's supermarket industry in 1976, as well as increased competitive pricing activity. Sales increases also reflected sales generated in new stores and stores remodeled in 1976. Supermarket Company sales represented 68.7% of the total in 1976 compared to 72.0% in 1975, whereas General Merchandise Companies sales increased to 31.3% from 28.0% in 1975.

Costs and expenses for 1976 increased by $122,331,000 or 9.2% over the prior year. These increases were primarily due to a continued rise in operating expenses as well as increased advertising programs resulting from intensified competition and more selective buying patterns.

In addition, total interest expense increased by $1,906,000 or 30.7%. Interest on mortgages increased by $666,000 or 17.1% resulting from additional mortgage costs on real estate financing including the financing of the new Perishable Distribution Center which was completed in 1976. Other interest expense (net) increased by $1,240,000 or 53.8% over the prior year. On June 17, 1976 the Company signed a note agreement with the Prudential Insurance Company to refinance its existing loan and received $11,225,000 in additional funds in 1976 for its capital expenditure program (Note 2). The additional interest costs of this financing as well as reduced rates on short term investments in 1976 account for the increase in other interest expense.

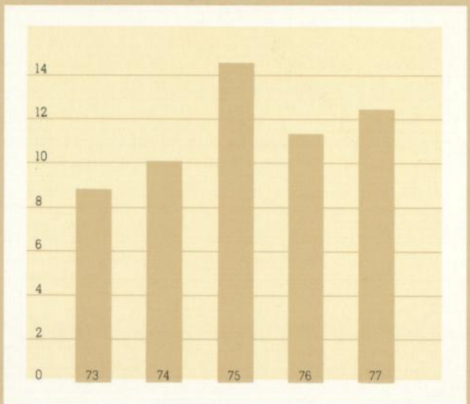
In 1976 federal income taxes were 37.6% of earnings before federal taxes compared to 43.1% in 1975.

The reduction in the effective tax rate is principally due to an increase in the investment tax credit.

Net earnings for 1976 amounted to $11,408,000, a decrease of $3,105,000 or 21.4% from 1975. The 1976 operating profit contribution from the Supermarket Company was down substantially from 1975 due to increased competitive pricing activity and more selective consumer buying patterns accompanied by a continued rise in operating costs. The General Merchandise Companies profit contribution was up but not enough to offset the profit decline in the Supermarket Company.

The operating profit contribution from the Supermarket Company decreased to 37.7% of the total in 1976 compared to 56.0% in 1975. Net earnings as a percentage of sales were .77% in 1976 and 1.07% in 1975.

Operating Earnings After Taxes (In Millions)



The Stop & Shop Companies, Inc. and Subsidiaries

Consolidated Ten-Year Financial Summary

Fiscal Year Ended (Dollar figures in thousands except those stated on a per share basis)	1/28/78	1/29/77	1/31/76
Operating Results			
Sales:			
Supermarket Company	**$1,086,824**	1,013,135	978,566
General Merchandise Companies	**$ 524,745**	461,737	381,210
Total	**$1,611,569**	1,474,872	1,359,776
% Increase over prior year	**9.3%**	8.5%	11.1%
Cost of goods sold	**$1,254,053**	1,144,870	1,060,672
Selling and administrative expenses	**$ 309,513**	286,752	251,811
Depreciation & amortization	**$ 18,337**	16,855	15,569
Interest expense mortgages	**$ 4,408**	4,562	3,896
Interest expense other (net)	**$ 4,890**	3,547	2,307
Pre-tax operating earnings	**$ 20,368**	18,286	25,521
Operating earnings	**$ 12,422**	11,408	14,513
Percent to sales	**.77%**	.77%	1.07%
Percent to common stockholders' equity	**11.4%**	11.3%	15.6%
Extraordinary income	**$ –**	–	–
Earnings per share of common stock:[b]			
Before extraordinary income	**$ 3.13**	2.88	3.68
After extraordinary income	**$ 3.13**	2.88	3.68
Reinvested in the business	**$ 8,448**	7,447	11,201
Dividends[b]			
Dividends paid	**$ 3,974**	3,961	3,312
Dividends paid per share of common stock	**$ 1.00**	1.00	.84
Common stock distribution (5 for 4 split)	**–**	–	25%
Financial Position			
Capital expenditures (net)	**$ 22,130**	25,023	22,965
Inventories	**$ 143,669**	139,554	129,720
Working capital	**$ 84,610**	65,054	55,482
Current ratio	**1.84**	1.69	1.57
Total assets	**$ 344,555**	314,122	298,601
Long-term debt less current portion:			
For land and buildings	**$ 59,324**	60,368	63,191
For other	**$ 62,746**	46,770	33,954
Stockholders[b]			
Stockholders' equity	**$ 109,269**	100,633	92,935
Per share of common stock	**$ 27.44**	25.37	23.56
Number of common shares outstanding	**3,982**	3,966	3,944
Common stock price range—high-low	**$ 16½-12½**	21-13¼	18⅜-10¼
Stores			
Stores in operation at year end:			
Stop & Shop Supermarkets	**159**	157	157
Bradlees Department Stores	**74**	75	69
Medi Mart Drug Stores	**40**	35	31
Perkins Tobacco Shops	**48**	48	44
Square footage—sales area at year end: (In Thousands)			
Stop & Shop Supermarkets	**2,996**	2,888	2,870
Bradlees Department Stores	**5,160**	5,243	4,805
Medi Mart Drug Stores	**423**	378	339
Perkins Tobacco Shops	**30**	30	27
Total	**8,609**	8,539	8,041

[a] 53 weeks.

[b] Per share amounts have been restated to reflect a 5 for 4 stock split-up paid April 1, 1976.

2/1/75	2/2/74	2/3/73[a]	1/29/72	1/30/71	1/31/70	2/1/69[a]
894,099	788,764	733,797	683,020	603,662	553,046	515,575
329,692	294,193	260,672	224,714	186,288	167,432	139,247
1,223,791	1,082,957	994,469	907,734	789,950	720,478	654,822
13.0%	8.9%	9.6%	14.9%	9.6%	10.0%	15.6%
963,060	862,991	794,985	730,060	624,974	570,819	522,182
221,767	183,574	169,860	157,109	139,744	122,610	109,662
15,004	14,014	11,616	9,843	9,419	8,931	7,928
4,023	4,101	3,798	3,034	2,361	2,373	2,084
2,620	3,040	3,407	3,188	3,400	1,622	1,155
17,317	15,237	10,803	4,500	10,052	14,123	11,811
10,106	8,860	6,400	3,561	5,637	7,445	6,736
.83%	.82%	.64%	.39%	.71%	1.03%	1.03%
12.4%	12.2%	9.6%	5.6%	9.1%	12.6%	12.7%
1,886	—	—	—	—	—	—
2.56	2.25	1.62	.90	1.44	1.92	1.78
3.04	2.25	1.62	.90	1.44	1.92	1.78
8,918	6,023	3,562	729	2,819	4,691	4,001
3,074	2,837	2,838	2,832	2,818	2,754	2,735
.78	.72	.72	.72	.72	.72	.72
—	—	—	—	—	—	—
14,400	14,672	13,735	38,561	16,824	19,093	18,251
107,507	98,584	83,518	72,753	60,613	58,624	51,469
48,221	38,586	36,798	36,495	50,059	32,969	32,476
1.65	1.48	1.55	1.59	2.20	1.61	1.92
261,990	260,087	244,729	238,337	200,638	188,305	158,432
57,637	59,776	62,221	62,069	45,951	39,297	38,926
36,428	38,895	41,125	43,575	44,800	26,100	26,100
81,706	72,774	66,751	63,153	62,150	59,251	53,040
20.73	18.47	16.94	16.03	15.87	15.15	13.92
3,942	3,941	3,941	3,939	3,917	3,911	3,810
14⅝-7¼	15¼-10⅜	21¼-11⅜	22¾-15¾	24½-15¾	27¾-19⅛	29¾-19⅜
156	155	154	156	149	139	138
65	63	56	53	51	50	52
25	22	19	18	13	6	3
39	38	34	33	28	21	—
2,762	2,728	2,674	2,655	2,460	2,212	2,134
4,419	4,176	3,575	3,322	3,040	2,968	2,949
279	261	236	227	162	76	36
23	22	20	18	14	9	—
7,483	7,187	6,505	6,222	5,676	5,265	5,119

The Stop & Shop Companies, Inc. and Subsidiaries

Consolidated Balance Sheets

Assets	January 28, 1978 (In Thousands)	January 29, 1977 (In Thousands)
Current assets:		
Cash	$ 6,881	$ 4,906
Marketable securities (at cost, approximating market)	24,968	5,544
Accounts receivable	8,331	7,880
Inventories, at the lower of cost or market	143,669	139,554
Prepaid expenses	1,987	2,003
Total current assets	185,836	159,887
Fixed assets, at cost (Notes 1 and 2):		
Land	10,990	11,070
Buildings and improvements	104,848	105,446
Fixtures, machinery and equipment	109,148	99,692
	224,986	216,208
Less accumulated depreciation and amortization	85,847	81,330
	139,139	134,878
Leasehold improvements at cost less accumulated amortization	15,443	15,911
Net fixed assets	154,582	150,789
Other assets:		
Notes receivable, and other	2,562	2,012
Deferred charges	1,575	1,434
Total other assets	4,137	3,446
	$344,555	$314,122

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	January 28, 1978 (In Thousands)	January 29, 1977 (In Thousands)
Current liabilities:		
Current portion of long-term debt	$ 1,610	$ 1,720
Accounts payable	72,885	69,283
Accrued expenses	21,933	20,830
Federal income taxes	4,798	3,000
Total current liabilities	101,226	94,833
Deferred credits:		
Federal income taxes (Note 6)	11,221	10,707
Other	769	811
Total deferred credits	11,990	11,518
Long-term debt (Notes 2 and 10):		
Capitalized lease obligation	8,460	8,685
Mortgage notes payable	50,864	51,683
Other notes payable	62,746	46,770
Total long-term debt	122,070	107,138
Stockholders' equity:		
Preferred stock; authorized 500,000 shares, none issued or outstanding	–	–
Common stock par value, $1 per share; authorized 7,500,000 shares, issued 4,057,473 shares and 4,041,316 shares, respectively (Note 3)	4,057	4,041
Capital in excess of par value of capital stock (Note 5)	15,495	15,323
Retained earnings (Note 2)	91,024	82,576
	110,576	101,940
Less cost of 75,373 shares in treasury	1,307	1,307
Total stockholders' equity	109,269	100,633
Commitments and contingencies (Notes 8, 10 and 12)		
	$344,555	$314,122

See accompanying notes to consolidated financial statements.

The Stop & Shop Companies, Inc. and Subsidiaries

Consolidated Statements of Earnings and Retained Earnings

	52 Weeks Ended January 28, 1978 (In Thousands)	52 Weeks Ended January 29, 1977 (In Thousands)
Retail sales	**$1,611,569**	$1,474,872
Costs and expenses:		
Cost of goods sold, buying and warehousing costs	**1,254,053**	1,144,870
Selling, store operating and administrative expenses	**309,513**	286,752
Depreciation and amortization (Note 1)	**18,337**	16,855
Interest on mortgages	**4,408**	4,562
Other interest (net)	**4,890**	3,547
	1,591,201	1,456,586
Earnings before federal income taxes	**20,368**	18,286
Federal income taxes (Note 6)	**7,946**	6,878
Net earnings	**12,422**	11,408
Retained earnings at beginning of year	**82,576**	75,129
	94,998	86,537
Less cash dividends paid, $1.00 and $1.00 respectively	**3,974**	3,961
Retained earnings at end of year	**$ 91,024**	$ 82,576
Net earnings per average common share outstanding (Note 1)	**$ 3.13**	$ 2.88

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

	52 Weeks Ended January 28, 1978 (In Thousands)	52 Weeks Ended January 29, 1977 (In Thousands)
Funds provided:		
Net earnings	**$12,422**	$11,408
Items which do not use (provide) working capital:		
Depreciation and amortization	**18,337**	16,855
Deferred federal income taxes	**514**	196
Interest capitalized during construction of major facilities	**–**	(69)
Funds provided from operations	**31,273**	28,390
Increase in long-term debt	**22,923**	13,671
Exercise of employee stock options	**188**	251
	$54,384	$42,312
Used as follows:		
Expenditures for fixed assets, net of book value of disposals	**$22,130**	$25,023
Cash dividends paid	**3,974**	3,961
Decrease in long-term debt	**7,991**	3,678
Other deferred credits	**42**	33
Other	**691**	45
Increase in working capital	**19,556**	9,572
	$54,384	$42,312
Changes in working capital:		
Increase (decrease) in current assets:		
Cash	**$ 1,975**	$ (371)
Marketable securities	**19,424**	(2,914)
Accounts receivable	**451**	(74)
Inventories	**4,115**	9,834
Prepaid expenses	**(16)**	764
	25,949	7,239
Increase (decrease) in current liabilities:		
Current portion of long-term debt	**(110)**	(3,047)
Accounts payable	**3,602**	(2,228)
Accrued expenses	**1,103**	2,458
Federal income taxes	**1,798**	484
	6,393	(2,333)
Increase in working capital	**$19,556**	$ 9,572

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Accounting Policies:

Principles of consolidation:
The consolidated financial statements include the accounts for the parent company and all subsidiaries.

Fiscal year:
The fiscal year of the Company and its subsidiaries ends on the Saturday nearest to January 31. The years ended January 28, 1978 and January 29, 1977 each comprised 52 weeks.

Inventories:
Inventories are valued at the lower of cost or market, using the retail method for inventories in retail stores and standard costs, approximating current costs, for inventories in warehouses.

Fixed assets and depreciation:
The Company capitalizes interest during construction of major real estate. This policy has no significant effects on the consolidated financial statements.

Depreciation of fixed assets is computed on the straight-line method at rates which are sufficient to amortize the costs over their estimated useful lives:

Buildings	20 to 40 years
Equipment and fixtures	3 to 15 years
Motor vehicles	4 years

Cost of leasehold improvements is amortized on the straight-line method over periods of 10 to 15 years, or the term of the lease, if shorter.

Federal income taxes:
For federal income tax purposes, accelerated methods of computing depreciation on buildings and equipment are used wherever applicable. Provision has been made for related deferred federal income taxes for this and other timing differences. Investment tax credits on assets placed in service during the year and job tax credits are accounted for as a reduction in the provision for income taxes.

Store opening and closing costs:
The Company follows a policy of charging off all store opening expenses as incurred. Losses resulting from store closings are provided for as soon as reasonably determinable.

Accounting for leased properties:
The Company is accounting for leased properties in accordance with Accounting Principles Board Opinion No. 5 and Financial Accounting Standards Board Statement No. 13. The Company will implement the provisions of the Statement in accordance with the transition rules as set forth therein.

Earnings per share:
The Company computes primary earnings per share based on the weighted average shares outstanding during the year (3,973,305 and 3,959,656 shares in 1977 and 1976 respectively). Fully diluted earnings per share in each of the years differed from the primary earnings per share by less than 3%.

2. Long-Term Debt

	1977	1976
	(In Thousands)	
Industrial Revenue Bonds, 5.2% to 5.75%, maturing annually in increasing amounts from $240,000 to $685,000 from 1979 to 1998.	**$ 8,460**	$ 8,685
Mortgage notes, 4¾% to 10½%, (weighted average of 8.5% in 1977 and 8.4% in 1976) maturing annually at amounts averaging $3,000,000 through 1983, $2,400,000 from 1984 to 1998, and thereafter at smaller varying amounts through 2000.	**50,864**	51,683
Promissory note 9.4% maturing $4,000,000 annually to 1993 and the balance payable in 1994.	**62,225**	46,225
Promissory note 8.0%, maturing at increasing amounts through 1983.	**132**	156
Promissory note, 120% of prime rate maturing in 1981.	**389**	389
	$122,070	$107,138

Long-term debt maturing in the period 1979 to 1983 is as follows:

(In Thousands)

1979–$7,343	1982–$7,286
1980–$7,268	1983–$7,052
1981–$7,727	

The mortgage notes are secured by land, buildings and improvements costing approximately $94,600,000 and by assignments of intercompany lease agreements. Prepayments of $1,956,000 for mortgage principal due in 1978 were paid in 1977.

The Company executed two additional notes, on February 2, 1977 and August 4, 1977, under the 9.4% loan agreement and received $10,000,000 on each of these dates. A prepayment of the principal amount of $4,000,000 originally due in 1978 was paid in 1977 as permitted under the loan agreement.

Under the terms of the 9.4% Promissory Note, through 1994 working capital must be maintained at $30,000,000 and certain restrictions with respect to payment of cash dividends or purchase or retirement of capital stock are in effect. As of January 28, 1978, approximately $22,400,000 of retained earnings was not so restricted.

3. Stock Options

Options under the Company's Qualified Plan are granted at 100% of market value at date of grant and expire in five years. Options are exercisable in four equal cumulative annual installments commencing 18 months after grant date.

Changes are summarized as follows:

	1977		1976	
	Shares	Grant Price	Shares	Grant Price
Outstanding, Beginning of year	**129,145**	**8¾-13¼**	161,737	8¾-18⅜
Options granted	**5,000**	**15⅞**	–	
Expired or cancelled	**(20,422)**	**9½-16⅞**	(10,938)	9½-18⅜
Options exercised	**(16,157)**	**9½-13¼**	(21,654)	8¾-13¼
Outstanding, end of year	**97,566**	**8⅞-16⅞**	129,145	8¾-16⅞
Exercisable, end of year	**69,641**	**8⅞-16⅞**	78,210	8¾-13¼
Available for future grants	**51,781**		36,359	

4. Employee Stock Ownership Plan

During 1977, the Company adopted an employee stock ownership plan under the Tax Reform Act of 1976 which Act permits distribution of Company stock in an amount equal to 1% of the Company's investment which qualifies for and can be claimed by the Company as federal investment tax credit.

5. Capital in Excess of Par Value of Capital Stock

	1977	1976
	(In Thousands)	
Balance at beginning of year	**$15,323**	$15,093
Add:		
Excess over par value of proceeds from sale of capital stock to employees under stock option plan	**172**	230
	$15,495	$15,323

6. Federal Taxes Charged to Income

The provision for federal income taxes includes deferred taxes as follows:

	1977	1976
	(In Thousands)	
Accelerated depreciation	**$ 992**	$ 802
Timing differences related to store closing costs	**129**	(606)
Other	**(607)**	(1)
	$ 514	$ 195

Investment and job tax credits further reduced the provision by $1,738,000 in 1977 and $1,875,000 in 1976.

The federal tax expense in 1977 and 1976 reflected effective rates of 39% and 38% respectively compared with the statutory federal income tax rate of 48%. The reasons for these differences are as follows:

	1977	1976
Tax expense at statutory rate	**48%**	48%
Investment and job tax credits	**(9%)**	(10%)
Effective tax rate	**39%**	38%

State income taxes are included in selling, store operating and administrative expenses.

7. Wholly-Owned Realty Subsidiaries – Combined Balance Sheets

	January 28, 1978	January 29, 1977
	(In Thousands)	
Assets:		
Cash and receivables	**$ 138**	$ 743
Due from parent company	**18,293**	15,396
Fixed assets at cost:		
Land	**9,649**	9,729
Buildings and improvements	**72,562**	73,349
	82,211	83,078
Less accumulated depreciation and amortization	**30,011**	29,873
	52,200	53,205
Other assets	**1,446**	1,150
	$72,077	$70,494
Liabilities:		
Current portion of long-term debt	**$ 1,358**	$ 1,467
Accounts payable and accrued expenses	**1,291**	1,126
Deferred federal income taxes	**2,425**	2,440
Deferred other	**769**	811
Long-term debt, less current portion above (Note 2)	**43,539**	43,806
Parent company's equity:		
Capital stock	**59**	59
Retained earnings	**22,636**	20,785
	$72,077	$70,494

8. Retirement Plan

The Company's non-contributory retirement plans are available to all employees meeting minimum age and service requirements other than certain union employees covered by union-sponsored plans. The Company's policy is to fund retirement costs accrued, which in the current year, amounted to approximately $1,504,000 ($1,531,000 in 1976). As of January 1, 1977 total plan assets exceeded the actuarially computed value of vested benefits.

9. Replacement Cost Data (unaudited)

The Company's annual report on Form 10-K (a copy of which is available upon request) contains specific information on the year-end replacement cost of inventories and productive capacity (buildings, equipment and leaseholds, including those properties capitalizable under FASB13 – See Note 10) and the approximate effect that replacement cost would have had on the computation of cost of goods sold and depreciation expense.

10. Leased Properties

At January 28, 1978, the Company had various non-cancellable leases in effect for store properties, office buildings, distribution centers, transportation and computer equipment.

The number of stores in operation owned or leased by the Company is as follows:

	Owned	Leased	Total
Stop & Shop Supermarkets	59	100	159
Bradlees Department Stores	11	63	74
Other	15	73	88
	85	236	321

With respect to the above leases only that related to the Company's meat processing and packaging plant was capitalized under Accounting Principles Board Opinion No. 5. The following schedule analyzes the components of such capitalized lease as reported in the accompanying balance sheet:

	January 28, 1978	January 29, 1977
	(In Thousands)	
Land	$ 878	$ 878
Buildings and improvements	10,668	10,668
Equipment	4,824	4,353
	16,370	15,899
Less accumulated depreciation	3,511	2,768
Net	$12,859	$13,131

All other leases were previously reported as operating leases. In November 1976, the Financial Accounting Standards Board issued Statement No. 13, "Accounting for Leases." The Statement is effective for lease agreements entered into on or after January 1, 1977, and prior to 1981 its provisions will have to be applied retroactively by the Company by restating its financial statements. Certain leases in effect at December 31, 1976 which are now being accounted for by the operating method would be classified and accounted for as "capital leases" under Statement No. 13. If the Company had accounted for those leases as capital leases, assets would have increased by $52,283,000 and $46,684,000 and liabilities would have increased by $60,321,000 and $53,657,000 at January 28, 1978 and January 29, 1977 respectively. Net income for the year ended January 28, 1978 would have been reduced by $614,000 ($.15 per share).

At January 28, 1978, minimum rental payments due under the above leases are as follows:

	Capital Leases	Operating Leases
	(In Thousands)	
1978	$ 9,816	$ 14,512
1979	9,373	14,267
1980	9,295	14,156
1981	9,273	13,734
1982	8,802	13,252
Later Years	94,054	118,934
Total minimum lease payments (a)	140,613	$188,855
Estimated executory costs	13,338	
Net minimum lease payments	127,275	
Imputed interest (rates ranging from 5¼% to 9¾%)	66,954	
Present value of net minimum lease payments	$ 60,321	

(a) Minimum payments for operating and capital leases have not been reduced by minimum sublease rentals of $347,000 and $1,509,000, respectively, due in the future under noncancelable subleases. They also do not include contingent rentals that may be paid under certain leases.

Total rental expense for the two years ended January 28, 1978 and January 29, 1977 was as follows:

	January 28, 1978	January 29, 1977
	(In Thousands)	
Capital leases:		
Minimum rentals	$ 9,302	$ 8,008
Contingent rentals	226	230
Sublease rentals	(1,312)	(1,202)
	$ 8,216	$ 7,036
Operating leases:		
Minimum rentals	$16,871	$15,636
Contingent rentals	1,506	1,835
Sublease rentals	(1,493)	(1,391)
	$16,884	$16,080

Contingent rentals are determined on the basis of a percentage of sales in excess of stipulated minimums for certain store facilities and on the basis of mileage for transportation equipment.

Most of the Company's leases provide that the Company pay taxes, maintenance, insurance, and certain other operating expenses.

Management expects that in the normal course of business leases that expire will be renewed or replaced by other leases.

11. Summary of Quarterly Results (unaudited) and Segment Information

The quarterly results are included on page 16 with the Summary of Sales and Operating Profit Contribution by Major Segments.

12. Contingent Liabilities – Litigation

The Company has been made a defendant, together with other major retail food companies and others, in two civil antitrust actions, one of which purports to be a class action, brought by various cattle feeders and producers. The Company has also been named, but never served, as a defendant in a similar action. The plaintiffs allege that the defendants unlawfully conspired to restrain, unreasonably trade in and to fix the price of cattle and fresh, frozen and processed beef. The plaintiffs seek unspecified damages, which they ask to be trebled, injunctions against the alleged activities, costs and attorneys' fees. These actions, together with a number of other cases in which the Company is not a defendant, were consolidated for pretrial discovery purposes. In December, 1977 and February, 1978, several of the consolidated cases, including each of the cases referred to above in which the Company has been named or made a defendant, were dismissed with prejudice on the basis of a recent United States Supreme Court decision. The plaintiffs have subsequently appealed the dismissals. In the opinion of legal counsel the likelihood of the plaintiffs' prevailing in the appeals is remote. In any event, the Company believes there are good and meritorious defenses to each of the actions in which it has been named or made a defendant and that the resulting liability, if any, will not materially affect the financial condition of the Company.

Accountants' Report

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
ONE BOSTON PLACE
BOSTON, MASSACHUSETTS 02108

The Board of Directors and Stockholders
The Stop & Shop Companies, Inc.:

We have examined the consolidated balance sheets of The Stop & Shop Companies, Inc. and subsidiaries as of January 28, 1978 and January 29, 1977, and the related consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of The Stop & Shop Companies, Inc. and subsidiaries at January 28, 1978 and January 29, 1977, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

March 14, 1978 — Peat, Marwick, Mitchell & Co.

Officers

Annual Meeting:
May 31, 1978 at 1:30 P.M. at The First National Bank of Boston, First Floor Auditorium, 100 Federal St., Boston, Massachusetts.

Transfer Agent:
The First National Bank of Boston

Registrar:
Boston Safe Deposit and Trust Company

Auditor:
Peat, Marwick, Mitchell & Company

Counsel:
Goodwin, Procter & Hoar
Sherin & Lodgen

General Offices:
P.O. Box 369, Boston, Massachusetts 02101

Shares Traded on:
Boston Stock Exchange
New York Stock Exchange

Automatic Dividend Reinvestment Plan
The Company's transfer agent offers an Automatic Dividend Reinvestment and Cash Stock Purchase Plan which gives shareholders a convenient, inexpensive method of purchasing additional shares of Stop & Shop stock with quarterly dividends and optional cash investments.

For further details write:
First National Bank of Boston
Automatic Dividend Reinvestment and Cash Stock Purchase Plan
P.O. Box 1681
Boston, MA 02105

Form 10•K
Copies of Form 10-K, to be filed with the Securities and Exchange Commission, are available without charge by application to: Director of Media Relations, The Stop & Shop Companies, Inc., P.O. Box 369, Boston, Massachusetts 02101

The Stop & Shop Companies, Inc.
Sidney R. Rabb, Chairman of the Board and Chief Executive Officer*
Irving W. Rabb, Vice Chairman of the Board and Chairman, Executive Committee*
Avram J. Goldberg, President and Chief Operating Officer*
Albert S. Frager, Treasurer and Chief Financial Officer*
Frank A. Crowley, Vice President, Real Estate
Anthony DiNardo, Vice President, Personnel
Stephen C. Espo, Vice President, Distribution and Information Systems
Daniel Donegan, Vice President, Distribution
Harold E. Fine, Vice President, Construction and Engineering*
J. David Fine, Vice President, Labor Relations
Myles Hannan, Vice President
Bernard Solomon, Vice President, Civic, Government and Community Affairs
Richard F. Spears, Vice President*
Louis P. Steinberg, Vice President, Marketing Services
Joseph D. McGlinchey, Vice President and Corporate Controller*
Arthur S. Robbins, Vice President, Accounting and Assistant Treasurer*
Carmen J. Gentile, Assistant Treasurer*
Donald J. Hurley, Secretary and Clerk*

Stop & Shop Supermarket Company
Sidney L. Goldstein, President
Anast W. Giokas, Vice President, Sales
Ralph J. Lordi, Vice President, Director of Grocery Purchasing
Richard H. Donlan, Vice President and General Manager, New Jersey Division
Edmund J. Rozumek, Vice President and General Manager, Boston Division
Lewis G. Schaeneman, Jr., Vice President and General Manager, Connecticut Division
Jack Kushinsky, Vice President, Financial Management and Administration
Donald W. Stowbridge, Vice President, Stores Operations

General Merchandise Companies
Robert J. Levin, Group Vice President

Bradlees Department Store Company
Harold Frank, President
Martin Baker, Vice President, Marketing
Raymond J. Doyle, Vice President and Merchandise Controller
Philip J. Hiscock, Vice President, Director of Stores
James Hyman, Vice President and General Merchandise Manager, Hardlines
Harry Kohn, Jr., Vice President and General Merchandise Manager, Apparel
C. Robert Peacock, Vice President, Operations and Accounting

Medi Mart Drug Store Company
Seymour L. Silverstein, Vice President and General Manager

Charles B. Perkins Tobacco Shops
Timothy A. Hays, Vice President and General Manager

Stop & Shop Manufacturing Company
Carol R. Goldberg, President
Blaine B. Breidenstein, Vice President, Marlboro Meat Processing Facility
Spyros A. Gavris, Vice President, Marketing and Sales, Marlboro
Bernard A. Goldman, Vice President, Manufacturing Division
Rufus E. Lester, Jr., Vice President, Technical Affairs
Arthur Norris, Vice President, Technological Development and Quality Control*

E. L. Nason Co. Inc. and Fargo Potato Company
Philip Lane, General Manager

*Corporate Officer

Directors

Directors of The Stop & Shop Companies, Inc., from left, standing: William W. Wolbach, William Applebaum, Donald A. Gannon, Julian I. Edison, Clifton B. Cox, Carol R. Goldberg, William F. Pounds, Peter J. Solomon, Norman L. Cahners, Lloyd D. Tarlin. Seated, same order: Donald J. Hurley, Norman S. Rabb, Sidney R. Rabb, Avram J. Goldberg, Irving W. Rabb, Albert S. Frager. Not pictured: Robert J. Levin.

William Applebaum
Lecturer on Food Distribution and Comparative Marketing, Emeritus, Harvard Business School.

Norman L. Cahners
Chairman of the Board and Chief Executive Officer, Cahners Publishing Company

Clifton B. Cox
Vice Chairman, The Greyhound Corporation and Chairman, Armour and Company – Food and Consumer Products

Julian I. Edison
Chairman of the Board, Edison Brothers Stores, Inc. – Specialty Retail Stores.

Albert S. Frager
Treasurer and Chief Financial Officer of the Company.

Donald A. Gannon
Retired; formerly President of the Company.

Avram J. Goldberg
President and Chief Operating Officer of the Company.

Carol R. Goldberg
President of the Stop & Shop Manufacturing Company.

Donald J. Hurley
Counsel, Goodwin, Procter & Hoar, Counsellors at Law; Director of Various Companies; Clerk and Secretary of the Company.

Robert J. Levin, Group Vice President, (General Merchandise) of the Company.

William F. Pounds
Dean, Alfred P. Sloan School of Management, Massachusetts Institute of Technology.

Irving W. Rabb
Vice Chairman of the Board and Chairman of the Executive Committee of the Company.

Norman S. Rabb
Retired; formerly Vice Chairman of the Board, Senior Vice President and Assistant Treasurer of the Company.

Sidney R. Rabb
Chairman of the Board and Chief Executive Officer of the Company.

Peter J. Solomon
Managing Director and Member of the Board, Lehman Brothers Kuhn Loeb Inc. – Investment Bankers.

Lloyd D. Tarlin
Retired; formerly Vice President of University Bank and Trust Company, Senior Vice President of the Company.

William W. Wolbach
Chairman of the Board, The Boston Company, Inc. – Financial Holding Company.

Executive Committee:
Sidney R. Rabb, Irving W. Rabb, Avram J. Goldberg

Audit Committee:
Donald J. Hurley, William F. Pounds, William W. Wolbach